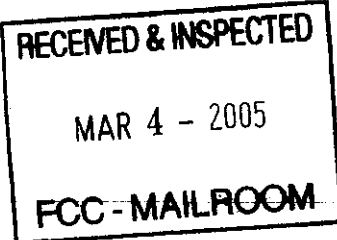




iBasis, Inc.

20 Second Avenue, Burlington, MA 01803 USA
781 505.7500, FAX 505.7300, **ibasis.net**



February 22, 2005

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

**Re: Implementation of the Pay Telephone Reclassification and
Compensation Provisions of the Telecommunications Act of 1996,
CC Docket No. 96-128**

Dear Ms. Dortch:

Attached please find the independent Accounts Report by GSAssociates which **iBasis, Inc.** is required to submit to the FCC per the requirements of 47 C.F.R. Section 64.1310, as discussed in the FCC Report and Order released on October 3, 2003 in the above docket. Please let me know if you have any questions.

Sincerely,

Richard Tennant
Chief Financial Officer
iBasis, Inc.

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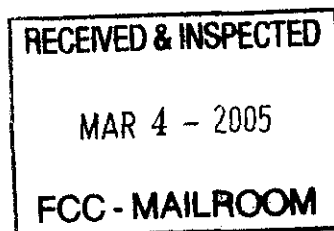


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Telephone (678) 687-1435

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iBasis, Inc.

Independent Auditor's System Report
For the Dial Around Compensation (DAC)

As required by FCC Order 03-235

Docket No. 96-128

1200 Old Alpharetta Road
Alpharetta, GA 30005

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Independent Auditor's Report
System Audit Report

Board of Directors
iBasis, Inc.

We have examined iBasis, Inc.'s compliance with FCC Order 03-235, Docket No 96-128, for the period January 1, 2004 through December 31, 2004. Management is responsible for iBasis, Inc.'s compliance with those requirements. Our responsibility is to express an opinion on iBasis, Inc.'s compliance base on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about iBasis, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on iBasis, Inc.'s compliance with specified requirements.

In our opinion, iBasis, Inc. complied, in all material respects, with the aforementioned requirements for the period mentioned through December 31, 2004.

iBasis, Inc. has engaged Billing Concepts, Inc. (BCI) to process compensation to Payphone Service Providers (PSP's). Included herewith, and made part of this report, is BCI's auditors' report concerning their compliance with FCC Order 03-235.

The description of policies & procedures concerning DAC at iBasis, Inc as of December 31, 2004, as well as information concerning tests of the operating effectiveness includes the period of January 1, 2004 to December 31, 2004. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at iBasis, Inc is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of iBasis, and is not intended to be and should not be used by anyone other than the specified party.



GSAAssociates
February 16, 2005

Overview of System Audit Requirements

This System Audit Report is a result of a recent FCC Order (03-235, Docket No 96-128), effective July 1, 2004, requiring Interexchange Carriers (IXC's) and Switch Based Resellers (SBR's) to establish and maintain a comprehensive Call Tracking System (CTS) which accurately reports and compensates Payphone Service Providers (PSP's).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor's report shall conclude whether the SBR complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the SBR's procedures accurately reflect the Commission's rules, including the attestation reporting requirements.
- 2) Whether the SBR has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the SBR has effective data monitoring procedures.
- 4) Whether the SBR adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the SBR has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the SBR has procedures to incorporate call data into required reports.
- 7) Whether the SBR has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial, and
- 9) Whether the SBR's have adequate and effective business rules for implementing and paying payphone compensation.

Audit Process & Procedures

Our audit reports on the first four (4) factors listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements (SSAE), specifically, SSAE 10, AT Section 101 *Attest Engagements* and AT Section 601 *Compliance Attestation*.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
 - a) *Objectivity* - free of bias
 - b) *Measurability* - reasonable consistent measurements, qualitative or quantitative, of subject matter.
 - c) *Completeness* - sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
 - d) *Relevance* - criteria relevant to the subject matter.
- 4) Maintain an Independence mental attitude in all matters relating to the engagement.
- 5) Exercise Due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

Because iBasis has engaged a clearing house for processing compensation for the PSP's, factors five (5) through nine (9) of the Order are subject to the AICPA's Statement on Auditing Standards (SAS) 70 - Reports on Processing of Transactions by Service Organizations. The clearing house is required to engage an auditor to issue a compliant report regarding the remaining five (5) factors of the Order. That report is included herein and is hereby made part of our report.

DAC Policies & Procedures

iBasis has established and documented policies & procedures specifically in compliance with the Dial Around Compensation FCC order. These include, but are not limited to:

1. Backup Policy
2. Core Security - Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

FCC Relevant Rules Accurately Stated

iBasis has established, defined and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Late payments per IRS overpayment rate.
- Data Storage Requirements.

Responsible Dedicated Staff

iBasis (along with their clearing house – Billing Concepts, Inc.) has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. The Financial Operations & Analysis Senior Director, Brad Guth, is responsible for drafting necessary business requirements.
2. The Applications Development Senior Manager, Stephen Becker, is responsible for developing & maintaining systems to create payphone call records from switch records.
3. The Applications Development Senior Manager, Stephen Becker, is responsible for implementing & maintaining procedures that check the validity of identified payphone records.
4. The Applications Development Senior Manager, Stephen Becker, is responsible for implementing & maintaining procedures that create final compensation data sets.

5. The Applications Development Senior Manager, Stephen Becker, is responsible for developing compensation tracking reports.
6. The Financial Operations & Analysis Senior Director, Brad Guth, is responsible for dispute resolutions.

Data Monitoring Procedures

iBasis has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, PSP identities, numbers called, and infodigits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

Established Security Protocols

iBasis has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

Independent Payphone Call Tracking System Matching Test

As part of our report, during our audit engagement, we conducted an independent test to verify compliance of iBasis' Call Tracking System which resulted in a 100% call match.

Payphone Call Tracking System Test

GSAssociates has determined a cross reference of independent call data generated by GSAssociates through iBasis' PBX to be the most accurate approach to validating data on completed calls. PBX call log data report on all attempts and completions. It is a programmatic effort to separate the completed calls. This programmatic approach was used to verify iBasis' accuracy.

iBasis historically paid the IXC for all completed calls. Actual historical performance on payment was documented. Valid payments were first identified reflecting the SBR conducted their data collection properly to identify the actual completed calls.

Observations

1. All necessary information, related to call origination, required to record payphone calls appears. IBASIS defines procedures for identifying the accurate Payphone Operator code from the ANI data transmission and, further, identify their coding procedures for segmenting completed calls with payphone codes.
2. Time and date stamp were present and were used to facilitate the independent audit by GSAssociates.

Independent Test Methodology

This firm has determined that it is necessary to independently track calls from payphone users with a controlled audience and controlled traffic. We have therefore established the following provisions for valid testing of the call tracking systems for the SBR:

1. Isolate calls related to our test with an unpublished number within our switch.
2. Develop a call tracking system log within our PBX.
3. Set a call time period for our Call-In Team.
4. Establish a documentation method for the Call-In Team to verify their attempted and completed calls.
5. Verify all data points related to the Call-In Team documentation with our log and that of the SBR client.
6. This firm has established a Direct Inward Dial (DID) number designated for testing. Each DID was assigned to a particular audit and assigned for a period of time. The following DID were available for use in this audit

Client: iBASIS
DID: 678.527.2181
Test Period: December 9-11.

All calls made during this period coincided with this test and were validated by the Call-In Team documentation.

- I. This firm's call tracking system documented all completed calls. Each completed call was tracked from the point of completion until the call was cancelled by the Call-In Team member. In order to validate the programming between the SBR's PBX and this firm's log, we establish a method for the Call-In Team member to document several standard calls with different call periods. It is important to note that all but one call was made from a payphone by each Call-in Team member.

Call #1-Complete with less than six (6) seconds.

Call #2-Complete with a period between 10 and 20 seconds.

Call #3-Complete with a period between 40 and 50 seconds.

Call #4-Complete with a period between 60 and 90 seconds.

Call #5- (FROM A NON-PAYPHONE RESIDENCE) Complete with a period between 90 or more seconds.

Each call was recorded on the Call-In detail sheet noting the date, time and Call #.

All documentation was submitted within 24 hour of the test. The documentation was submitted to this firms designated fax number:

Documentation Fax Number (775) 490-5812

- II. This firm established several DID's which were applied to the audit. Each DID had a voicemail account which prompted the Call-In Team member to track and document the call. Call-In Team members' documentation were validated for all calls logged in during the designated test period. All calls made outside this period were excluded from the audit and no credit was given to the Call-In Team member.

Call-In Period: December 9, 2004 through December 11, 2004.

III. Documentation and data collection by the Call-In Team were collected at the point test calls were made. The following data points were included in their test call documentation:

- i. Date
- ii. Time
- iii. Call-In Team Member
- iv. Location
- v. City
- vi. State
- vii. Name of PSP (if on the phone device)
- viii. Phone Number (if on the phone device)
- ix. Call #1 clock stamp
- x. Call #2 clock stamp
- xi. Call #3 clock stamp
- xii. Call #4 clock stamp
- xiii. Call #5 Residence Phone line
- xiv. Call #5 clock stamp
- xv. Date Faxed
- xvi. Issues occurring during test.

Cross Reference Verification

GSAssociates completed the independent test of the PBX log and confirmed that 100% of test calls completed appeared in the PBX log extract. This indicates that iBasis has developed the necessary programmatic approach to acquiring call data to completion.

Dispute Resolution Procedures

iBasis had assigned their CFO, Richard Tennant, as the individual responsible for processing payment to the IXC. For future compensation to the Payphone Service Providers, CFO will be responsible for managing iBasis's relationship with their clearinghouse, BILLING CONCEPTS. CFO will also monitor the performance of BILLING CONCEPTS as they perform the payments to the PSP's.

As a clearinghouse, BILLING CONCEPTS will conduct procedures to match the completed call details, from the PBX log, to the ANI database. BILLING CONCEPTS will also perform all the necessary communications with each PSP in regards to the completed call reporting and the payment for completed calls. CFO will, on a quarterly basis, certify that all payments, reports, and his sworn statement of payment accuracy have been sent.

Any disputes by a PSP will first be reviewed by BILLING CONCEPTS. If the payment was in error and supporting PBX log data indicate such, BILLING CONCEPTS will perform the correction. If disputes required additional supporting data from iBasis, BILLING CONCEPTS will inform CFO, in writing, of the request for additional information. CFO will manage the request in a timely and expeditious manner. CFO will then request standard updates at appropriate intervals by BILLING CONCEPTS until the dispute has been resolved.

Compensable Payphone Call File Creation

iBasis has submitted data to reflect standard extract from their PBX log. GSASSOCIATES determined that this file contained all the necessary data to perform the ANI match and the detailed reports for compensation to each separate carrier.

Billing Concepts, Inc.

**Report on Controls Placed in Operation
for the Dial Around Compensation
Services Application**

As of March 31, 2004

Billing Concepts, Inc.

Report on Controls Placed in Operation for the Dial Around Compensation Services Application

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PADGETT, STRATEMANN & CO., L.L.P.

Certified Public Accountants and Business Advisors

Independent Service Auditors' Report

To the Board of Directors
Billing Concepts, Inc.
San Antonio, Texas

We have examined the accompanying description of the controls of Billing Concepts, Inc. ("BCI") applicable to recordkeeping, reporting, and payment services provided to its clients by the Dial Around Compensation ("DAC") Team of BCI. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of BCI's controls as it relates to DAC; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied those aspects of internal control contemplated in the design of BCI's controls; and (3) such controls had been placed in operation as of March 31, 2004. The control objectives were specified by the management of BCI. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of BCI, presents fairly, in all material respects, the relevant aspects of BCI's controls that have been placed in operation as of March 31, 2004. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and user organizations applied those aspects of internal control contemplated in the design of BCI's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls, as listed in Section IV, to obtain evidence about their effectiveness in meeting the related control objectives during the period from January 1, 2004 to March 31, 2004. The specific control objectives; controls;

100 N.E. Loop 410, Suite 1100, San Antonio, Texas 78216 • www.padgett-cpa.com
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and the nature, timing, extent, and results of the tests are listed in Section V. This information has been provided to DAC customers of BCI and to their auditors to be taken into consideration, along with information about BCI's customers' internal controls, when making assessments of control risk for BCI's customers. In our opinion, the controls that we tested (Section V) were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section IV were achieved during the period from January 1, 2004 to March 31, 2004.

The relative effectiveness and significance of specific controls at BCI and their effect on assessments of control risk at BCI customers are dependent on their interaction with internal control, and other factors present at individual BCI customers. We have performed no procedures to evaluate the effectiveness of internal control at individual BCI customers.

The description of controls at BCI is as of March 31, 2004, and information about tests of the operating effectiveness covers the period from January 1, 2004 to March 31, 2004. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at BCI is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by management of BCI, its DAC customers, and the independent auditors of such customers.

Dodgett, Strathmann & Co.

Certified Public Accountants
May 26, 2004

II. Overview of Operations and Internal Control Features

Overview of Operations

The Dial Around Compensation (“DAC”) system provides customers the service of handling Payphone Service Provider (“PSP”) Compensation Requests and Payments. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee.

Billing Concepts, Inc. (“BCI”) provides:

Database Management

- BCI will compile and compare ANI lists submitted by Local Exchange Carriers (“LECs”) and PSPs and provide customers with an up-to-date, comprehensive list of all valid payphones in service. This list can be used at the customer’s option to help identify payphone-originated calls for surcharge and compensation purposes.

Payphone Ownership Validation

- BCI will use a variety of name and address matching algorithms to compare information provided by PSPs with information provided by the LECs in order to identify the legal owner of each payphone prior to issuing any compensation payments (the ANI Master Database).
- BCI will attempt to resolve all disputes between LECs, PSPs, and other parties, where applicable, regarding ownership of payphone ANIs, the in-service dates, and the amount of DAC paid.

Calculation of DAC Obligations

- BCI sorts, matches, and counts customer’s payphone-originated call records to determine the amount of DAC due each PSP.
- BCI calculates customer’s DAC obligations based on variable rates negotiated between applicable carriers and PSPs, and/or based on FCC-formulated default rates.

Management Reports and Invoice Processing

- BCI provides customers with reports, electronic files, and information detailing payment obligations and payments made on behalf of its customers.
- BCI receives requests for compensation from PSPs and aggregators on behalf of customers and will serve as the customer’s representative.

- BCI pays the appropriate PSPs and aggregators on behalf of its customers. Payments will be approved in advance by our customers and accompanied by itemized payment reports and supporting files in accordance with FCC requirements.

Customer Service

- BCI provides on-line customer service representatives who handle inquiries concerning DAC services and payments.

Processing Summary

- Each PSP sends BCI a Request for Payment ("RFP") which includes a list of payphone ANIs the PSP claims.
- To validate PSP ownership of the ANIs being claimed, every LEC is required by the FCC to provide a list of payphone ANIs and owners for whom the LEC provided dial tone service on the last day of each quarter. The LECs also provide lists of ANIs that have been disconnected during the quarter. BCI matches the LEC information with the PSP data to determine the actual owner of each ANI. When software cannot determine the owner of an ANI, DAC staff members will examine the ANI data to determine (if possible) the true owner. One consideration in the system processing is that the LECs are required to submit only data that has changed from quarter to quarter. Most submit complete quarterly data, but in the absence of current quarter LEC data, previous quarter information must be presumed valid.
- Each PSP receives a status report of the ANIs submitted. Where the owner of an ANI could not be determined (mismatched data or no LEC data), the PSP must contact the servicing LEC to have proper documentation submitted. This documentation is used by the DAC staff for assigning proper PSP owner to the ANIs.
- BCI customers send their completed call records for each quarter. These records are summarized by ANI, 800 number, and call month, and matched to the ANI Master Database. Call payment information for each eligible PSP is calculated and presented to the customers for approval. Once payments are approved (and funds received), BCI pays each PSP. Both the customer and PSP receive data files that detail the calls being compensated.

Processing Detail

In the first month after the end of the quarter, activity centers around receiving, logging, and verifying LEC payphone disconnect and payphone owner data and PSP claim data.

Some LECs and PSPs submit their information as a spreadsheet file. These files must be converted manually to a fixed spacing text file (*.prn) before being processed by the system, or the users may use program DACPCXLS.exe (it works for both sources). LECs also submit files containing disconnect data; these files are merely copied to a directory on the file-server for processing.

Some of the submissions arrive on paper or in an e-mail that must be printed. The printed information must be put into disk files for processing by the data entry section using the DAC Utility program. That program has screens for entering the LEC or PSP information which is formatted and written into a file with a designated name associated with the submitter. For PSPs that have submitted data in prior quarters, the filename is obtained from the prior quarter's TransDtl##### table and adjusted for the current quarter; otherwise the data entered in the "FileName" edit window is used. The file is written to the SQL Server's "LECs" or "PSPs" directory, as appropriate.

Most of the data arrives on either diskette or CD. Disconnect data files (text or Excel spreadsheet files) are copied to the file-server's "Discons" folder. LEC Owner data files and PSP claim files are copied to a DAC Technician's hard disk where they can be checked by LEC editing software or PSP editing software and then manually re-edited for validation. Aggregator files are first processed by the Aggregator Organizer program to ensure that the PSPs are properly grouped by company number. Properly formatted files are copied to the server. PSPs are able to make compensation claims against the current and the last 6 prior quarters.

When all the files have been validated and are ready to be processed, the new quarter database tables must be created. The DAC Utility is used to start the program that creates and initializes the table structures and data. After this, the Utility may be used to start the Disconnect program to process the Disconnect files. Then the LEC files are processed and then the PSP files (prior quarter files may be processed at the same time as current quarter files). The processing programs each create a processing report file in the server's "RPTs" directory, as well as a report file for each input file. Each processed file is also stored in a backup file, either "SLECyqq.ZIP" or "SPSPyyqq.ZIP", for archiving to CD.

At this point, ownership errors must be checked for possible correction. Extract files of the Resolution Detail tables are created via the DAC Utility Schedule function to be used by the DAC Utility's ResDtl##### Correction process in which the clerk looks at the errors to see if there is enough data available to determine the correct PSP owner.

If a PSP's ANI has been processed that is incorrect (such as, digits transposed) a program is run to attempt to correct the entry by comparing to previous quarter data. If the ANI is not located, it will be reported to the PSP (processes that update ANI ownership status also update the payment information).

Once the errors have been corrected, ANI Status report files are created for each PSP to show the status of all ANIs submitted. The ANI Master List file which is provided to the customers is also created. This DAC Utility process creates several disk files from the ANI Master table: a file of the ANIs, a file of ANIs and assigned PSP IDs, a file of the PSP IDs with PSP names, and certain other customer specific files, as requested.

At any time during the quarter, LECs may submit prior quarter documentation for establishing ANI Ownership. This information must be processed to remove owner conflicts from ANIs.

Approximately 45 days after the end of the quarter, customers' call records begin to be received. These files must be checked for format. Once validated, the files are archived to CD, copied to the server, and processed.

During the processing of call records, the invoice summary table is updated with payment information that is displayed and processed in the DAC Utility to determine the payments required by each customer.

When the call records have been processed and the invoice summary table has been updated, the DAC clerks check for potentially fraudulent ANIs. A threshold was applied during the call record processing based on threshold entries in the FraudANI table (default or per customer). First, the High Calls report is run to see if the thresholds applied were reasonable and to then adjust the value for any customer. Then the FraudANI report is run to see what PSPs had high call count ANIs. If the Threshold should be changed, to either add or delete records from FraudANI status, the DAC Utility Fraud screen will be used. The DAC Utility will execute a program to scan the CallSum### table to add entries if the threshold is lowered; it will do the processing for a raised value itself.

As each customer's final payment schedule is set and saved, the system creates a Detail Invoice file for the customer. This file must be matched to the payment schedule information to create a Payment Detail file for the customer and for the individual PSPs. There is software available to double-check the totals in each of the files should a question arise about the totals.

These quarterly reports summarize call records processed into one of the following categories:

- **No Claim** – reflects calls associated with ANIs recognized based on LEC validation data submitted, yet has not been claimed by a PSP.
- **Claim Validated** – reflects calls associated with ANIs belonging to payphone owners that have requested compensation from users for the applicable quarter and BCI has been able to verify the claimant is the legal owner.
- **Claim Not Validated** – reflects calls associated with ANIs belonging to payphone owners that have requested compensation from users for the applicable quarter, but the LECs have not reported ownership information for the nonvalidated ANIs.

- **Suspense** – reflects calls associated with ANIs involved in an ownership dispute. Ownership disputes can result when the LEC reported ownership information does not match the PSP ownership information, or when multiple PSPs claim ownership of the same ANI and the LEC information does not support any of the claims.
- **Potential Fraud** – reflects calls associated with ANIs that exceeded the user-defined threshold for number of calls per ANI per month. Users may adjust their threshold each quarter. This “potential fraud” is reported to users for further investigation.

When PSP payments are approved by the customers, the payment schedule files are used to create a spreadsheet containing the payment information which will be sent to Accounting. The files will also be used to create Payment Summary Reports that will be sent to each PSP along with their payment check.

Once payments have been sent, the Customer Payment Detail files are used to mark the payment date in the Call Record entries. After this has been done, the Invoice Summary table will be updated again to reflect both the payments and the remaining payment information data.

When a quarter becomes ineligible for new Compensation Requests, unpaid Call Records for the quarter can be marked as Expired (Paid Date is set to 99999999). A program is run that uses the final payment schedule data, saved by the DAC Utility, to determine PSPs whose calls should be expired; and all unclaimed Call Records will be expired by the program.

Each quarter’s information is stored for two years. Periodically, the stored databases are analyzed to ensure the record totals maintained are correct.

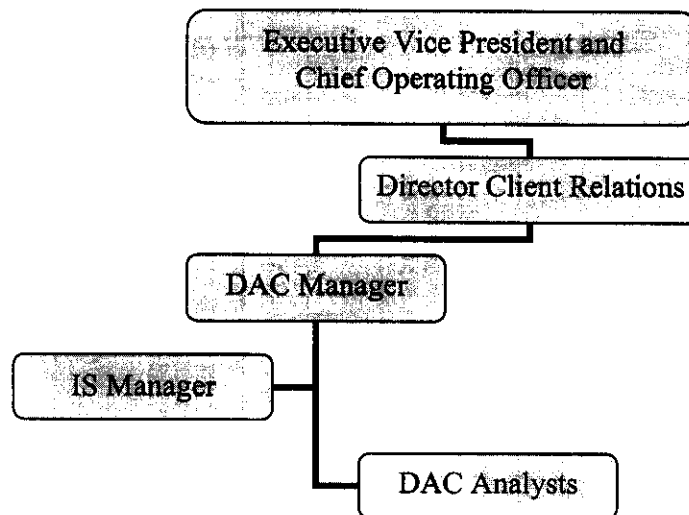
If a PSP has a dispute or question about the payment made, the PSP can request that its original file (or a newly submitted file) be checked in more detail. Software can extract the ANI Master data and all call record information from a designated quarter for ANIs in the submitted file. The DAC Manager and/or DAC Administrator can review the report and explain the status and payments to the PSP. If the DAC Manager or Administrator cannot resolve the dispute, then the information will be submitted to the user for additional information. The DAC Manager will coordinate the resolution of the dispute with the PSP and the user.

Internal Control Features

Control Environment Elements

BCI’s organizational structure, its management’s responsibilities, and its culture are important components of the DAC System’s control structure. The DAC System is under the direction of the Executive Vice President and Chief Operating Officer. The assignment of responsibility and authority to deal with the goals and objectives of the DAC System’s goals and objectives, system requirements, including regulatory requirements and customer obligations, have been completed

by BCI's management. The following organizational chart summarizes those with responsibility for DAC services:



BCI's DAC System is a small segment of its overall business. However, within the DAC team, segregation of key functions has been achieved in the following areas:

- **Marketing** – Marketing for DAC services is primarily done by a contract service person whose sole responsibility is to serve as liaison between users and BCI.
- **Customer Service** – Customer service is provided in two areas. First, customer service representatives in the customer service department provide services to DAC customers to assist in handling PSP disputes and general questions. In addition, the DAC Manager provides assistance directly to the DAC customers.
- **Information Systems (“IS”)** – IS provides for the development and support of the DAC System. This department is responsible for the design, documentation, programming, disaster recovery, and other general and specific requirements of the DAC System. IS is responsible for maintaining the integrity of its software by managing system performance, updates, system changes, and overall management of the DAC System’s applications, including hardware and applicable software applications.
- **DAC Services** – The DAC team has the primary responsibility to manage BCI’s DAC services. The department consists of staff members with varying responsibilities, but who overall manage the entry of data, creation of the ANI Master Database, processing of customer records, working with customers to handle PSP disputes, preparing applicable reports, aggregating payment information, and paying and reporting to PSPs.

- **Human Resources** – Human Resources, as it does for the other business segments of BCI, is responsible for maintaining proper policies and procedures relating to the overall work environment. Further, this department, in tandem with the operating departments, has overall responsibility for recruiting, hiring, and training qualified personnel.
- **Delegation of Responsibility and Authority** – BCI has assigned and delegated responsibility and authority to key leaders to carry out their job descriptions including meeting BCI's overall goals and objectives, but more specifically to meet the goals and objectives of the DAC System. While some of these employees have responsibilities in other business segments within BCI, they have no duties, responsibilities, or authority at the user organizations.

BCI has a Mission and Vision Statement that guides the organization's culture. Further, BCI understands that maintaining its core system, software, services, and related business practices, including satisfying customers' needs and meeting relating commitments, are critical to continuing to meet its business goals and objectives.

III. General User Control Considerations

The DAC System has been designed assuming certain control procedures would be implemented by users in order to achieve stated control objectives. Accordingly, users of the DAC System and their auditors should be aware of the following control procedures which are the responsibility of the user:

- **The DAC Services Agreement** –specifies the responsibilities of BCI and the user organization. Users and their auditors should refer to the agreement with respect to these responsibilities.
- **Access Controls** – control and security of systems relating to the user's DAC System and interface with BCI should be maintained by the user.
- **File Completeness and Timeliness** – the DAC System processes for payment call data record files for user-provided files including completed call records for payphone originated calls. Users are responsible for the completeness, accuracy, and timeliness of these initial call record files. Users and their auditors should understand the controls in place to create accurate completed call files for calls originating from PSPs and that such files are submitted to BCI in a timely manner.
- **Payment Authorization** – BCI provides notice to users of the estimated amount of DAC due each PSP based on available information. Users are responsible for reviewing and authorizing BCI to pay the PSPs. Users and their auditors should understand the controls in place to ensure proper approval of PSP payment by the user.

- **Completeness of Records Processed** – BCI provides users with quarterly reports summarizing the number of records received and the results of the processing of those records, including those detailing payments made on behalf of the user. The users are required to review these reports and notify BCI of any inaccuracies within 15 days of the date of such reporting. Users should understand the controls in place to review these reports, reconcile the number of records processed, paid or otherwise categorized, to the total number of call records submitted.
- **Dispute Resolution** – BCI serves as the principal point of contact in matters of dispute resolution with respect to PSP payments and related issues. While BCI attempts to resolve such disputes, many times the resolution of disputes requires input of the user. It is the responsibility of the user organizations to identify and communicate specific personnel responsible for dispute resolution in their organization. Users and their auditors should understand the controls in place for ultimate resolution of disputes. Note, however, that any disputes involving ANI ownership, the information provided by the LECs will prevail.
- **Payment Rate** – payments to PSPs are based on either rates negotiated by users and PSPs or the FCC default rate. The user is responsible for communicating to BCI any exceptions to the FCC default rate. Users and their auditors need to understand the controls in place to ensure that proper rates are used in determining payment to PSPs.
- **Fraudulent Call Identification** – users are required to define the threshold for number of calls per ANI per month. Users may adjust their threshold each quarter. This threshold is the basis for identifying potentially illegitimate calls. These calls are reported to users for further investigation. Users are responsible for establishing the thresholds and ultimately resolving matters with respect to potentially illegitimate calls. Users and their auditors should understand the policies and procedures with respect to establishing such thresholds and how identified calls are reviewed and ultimately resolved.
- **Regulatory Requirements** – users are required to obtain and keep current all applicable federal, state, and local licenses; tariffs; certifications; and approvals and to fully comply with, and have full responsibility to comply with, all other applicable federal, state, and local regulations; laws; rules; and tariffs. BCI assumes no responsibility for such compliance, except as where specifically stated in the DAC Services Agreement. Users and their auditors should understand the controls in place to ensure that the user is in compliance with all such regulatory requirements.
- **Contingency Procedures** – if the services of BCI were unavailable or inoperative due to system or communications failure, the user could expect some delay before the backup system used by BCI is established. Each user organization should establish procedures to ensure continued operations during the interim period.

- **DAC System Documentation** – BCI supplies users with technical information relating to file format and other procedures as it relates to submitting call records and other information. If changes are required, such changes are communicated to representatives at each user organization. It is the user organizations' responsibility to ensure that all such changes are appropriately updated in their user manuals in a timely manner.

IV. Summary of Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment services provided by BCI to its DAC customers include:

- Policies and procedures are in place to ensure payment rates conform to FCC rules.
- Policies and procedures are in place relating to the reporting elements as required in the DAC Services Agreement.
- Data is stored for a period at least as long as required by FCC rules.
- Procedures are in place to establish proper PSP ownership.
- Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BCI's DAC System requirements.
- BCI has identified specific personnel responsible for developing compensation tracking reports.
- BCI has identified specific personnel responsible for handling the initial customer service role in dispute resolution.
- Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).
- Reports are prepared that identify potentially fraudulent calls and are submitted to carriers for resolution.
- Reports are available for users to monitor call trends.
- Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least six quarters.
- Payments are authorized by users, and controls are in place that limit access to the disbursement system.

- Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes that ensure the changes do not negatively affect integrity of the records processed or the results of processing such records.
- Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

V. Description of Controls and Tests Performed

Our tests of the effectiveness of controls included such tests as we considered necessary in the circumstances to evaluate whether those controls, and the extent of compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from January 1, 2004 to March 31, 2004. Our tests of the operational effectiveness of controls were designed to cover the period from January 1, 2004 through March 31, 2004. In selecting particular tests of the operational effectiveness of control, we considered the (a) nature of the items being tested, (b) the types and competence of available evidential matter, (c) the nature of the control objectives to be achieved, (d) the assessed level of control risk, and (e) the expected efficiency and effectiveness of the test.

Test procedures performed in connection with determining the operational effectiveness of controls detailed in Section III are described below:

Test	Description
1. Corroborative inquiry	Made inquiries of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.
2. Observation	Observed application of specific controls.
3. Inspection of evidential material	Inspected documents and reports indicating performance of the controls.
4. Transaction testing	Reperformed application of the controls.

Key Control Objective – Policies and procedures are in place to ensure payment rates conform to FCC rules.

Policy or Procedure

Payment rates can either be based on a rate negotiated between the user and an individual PSP or the FCC default rate. The rates used for each user are established by the applicable user organization. These user-provided rates are entered into the payment system used to calculate the PSP obligation. At this time, all such rates are based on the FCC default rate.

Tests Performed

Padgett, Stratemann & Co., L.L.P. ("PS&Co.") judgmentally selected invoice summaries provided to users and recomputed the rate per record, comparing the recomputed rate to the FCC default rate to the current FCC rate, noting agreement. In addition, PS&Co. obtained a sample of call record files and recomputed amounts due applicable PSPs using the FCC default rate and agreed the payment amount calculated by BCI, noting agreement.

Key Control Objective – Policies and procedures are in place relating to the reporting elements as set forth in the DAC Services Agreement.

Policy or Procedure

As a part of its DAC services, BCI processes and prepares reports for users and for PSPs on a quarterly basis detailing calls originated from ANIs by owner, including the amount of relating compensation and carrier identification elements. In addition, customized reports are prepared upon request that provide information available to research disputes, potentially illegitimate calls, or other specified call trends.

Tests Performed

PS&Co. inquired of appropriate DAC personnel as to the processes for generating such reports. On a sample basis, PS&Co. reviewed the quarterly reports to determine the reports included the following:

- Identification of PSP
- Identification of ANIs by PSP
- Identification of calls originating by ANI
- Identification of amounts due to PSP
- Summary of potentially fraudulent calls

In addition, PS&Co. reviewed revised record formats to be added July 1, 2004 which include CIC codes and trunk group identifiers.

Key Control Objective – Data is stored for a period at least as long as required by FCC rules.

Policy or Procedure

BCI, as specified in the DAC Services Agreement, maintains call data records and relating reports for a period of two years.

Tests Performed

PS&Co. inquired of appropriate personnel as to the time the data files and relating information is stored, noting agreement of the stated policy.

Key Control Objective – Procedures are in place to establish proper PSP ownership.

Policy or Procedure

See the detail processing narrative above which details the processes for creating the ANI Master File. In summary, on a quarterly basis, BCI receives PSP ownership submissions directly from PSPs listing all ANIs that the submitting PSP claims as owned. BCI populates a database using these submissions, which arrive in several formats, including paper, e-mail, electronic transmission, or files on disk or CD.

To validate PSP ownership of the ANIs being claimed, every LEC is required by the FCC to provide a list of payphone ANIs and owners for whom the LEC provided dial tone service on the last day of each quarter. The LECs also provide lists of ANIs that have been disconnected during the quarter. Most submit complete quarterly data, but in the absence of current quarter LEC data, previous quarter information must be presumed valid. BCI populates a second database of all the LEC submissions.

BCI matches the LEC information with the PSP data to determine the actual owner of each ANI. When software cannot determine the owner of an ANI, DAC staff members will examine the ANI data to determine (if possible) the true owner. One consideration in the system processing is that the LECs are required to submit only data that has changed from quarter to quarter.

Once the validated ANI Master is created, each PSP receives a status report of the ANIs submitted. Where the owner of an ANI could not be determined (mismatched data or no LEC data), the PSP must contact the servicing LEC to have proper documentation submitted. This documentation is used by the DAC staff for assigning proper PSP owner to the ANIs.

Tests Performed

In order to test the creation of the ANI Master File, PS&Co. inquired of appropriate personnel as to the specific procedures performed, noting agreement with the stated policy. To test the actual file, PS&Co. selected a sample of PSP submissions from source documents and agreed pertinent information to the PSP ANI ownership database. In addition, PS&Co. selected a sample of PSPs

from the PSP ownership database and agreed pertinent information to the source document. The same tests were performed for the LEC submissions. PS&Co. also inquired as to the matching of the previous quarter validated ANI Master list to the new quarter's validated ANI Master list. Any ANIs not included in the current quarter that have not been reported as disconnected, are added to the current quarter listing.

Key Control Objective – Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to BCI's DAC System requirements.

Policy or Procedure

BCI has assigned responsibility to members of the DAC Group to ensure the DAC System is adequately assigned. Primary responsibility for the daily DAC Group's responsibilities has been assigned to the DAC Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Manager.

Key Control Objective – BCI has identified specific personnel responsible for developing compensation tracking reports.

Policy or Procedure

BCI has assigned the responsibility for the development of compensation tracking reports to the DAC Management Information System Analyst and the DAC Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel, noting primary responsibility has been assigned to the DAC Management Information System Analyst and the DAC Manager.

Key Control Objective – BCI has identified specific personnel responsible for handling the initial customer service role in dispute resolution.

Policy or Procedure

BCI has assigned the responsibility for dispute resolution to the DAC Manager and the Customer Service Manager.

Tests Performed

PS&Co. made inquiries of appropriate personnel noting primary responsibility has been assigned to the dispute resolution to the DAC Manager and the Customer Service Manager.

Key Control Objective – Quarterly reports are prepared for each user organization on payphone call counts, PSP identities, numbers called, and infodigits (if used).

Policy or Procedure

See the detailed process narrative above for more detail. In summary, on a quarterly basis, BCI processes each user organization's call record file in order to determine originated calls from validated ANIs, nonvalidated ANIs, potentially fraudulent calls and calls from ANIs with an ownership dispute. Reports are prepared which summarize the detail of the processed records.

Tests Performed

For selected users, PS&Co. obtained call record files and performed an analysis to self-determine the number of calls placed by originating ANI and identification of the ANI owner. Using the compensation report generated by PS&Co. from the original completed call files submitted by the selected users, PS&Co. agreed selected PSP call totals and ANI lists to those included in the compensation file generated by BCI.

Key Control Objective – Reports are prepared that identify potentially fraudulent calls and are submitted to carriers for resolution.

Policy or Procedures

BCI runs a report on each call record file to determine whether any call volumes for a particular ANI exceed the specified call volume threshold established by the user. For all ANIs that have originating calls in excess of this threshold, BCI prepares a fraud report that is submitted to the user which includes the PSP, ANI, and call count.

Tests Performed

PS&Co. inquired of appropriate personnel as to the procedures relating to the fraud reporting process, noting agreement with the stated procedures. In addition, PS&Co. obtained a fraud report that had been prepared for a selected user and determined the applicable information had been included for submission to the user.

Key Control Objective – Reports are available for users to monitor call trends.

Policy or Procedure

Data is maintained as set forth in the DAC Services Agreement for a period of two years. The data retained includes the original call record data submitted and all reports generated. As users request, IS can run various adhoc reports specifically designed to provide summary information requested by the user. To ensure the data is properly maintained, BCI regularly runs control totals on stored data to ensure the call record totals remain unchanged.

Tests Performed

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least two years in order to run any reports requested by the users to research and identify trends, and that the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS department receives occasional requests from the users to generate specific reports, and the reports are created and run on a customized basis.

Key Control Objective – Policies and procedures are in place to provide the availability to create customized reports to assist customer service and the user organizations to assist in the resolution of disputes. Such reports and call data are maintained for at least six quarters.

Policy or Procedure

Data is maintained as set forth in the DAC Services Agreement for a period of two years. The data retained includes the original call record data submitted and all reports generated. To ensure the data is properly maintained, BCI regularly runs control totals on stored data to ensure the call record totals remain unchanged. This information is available to be researched for use in resolution of disputes.

Tests Performed

PS&Co. inquired of appropriate personnel, noting data is maintained for a period of at least two years in order to run any reports requested by the users to research and resolve disputes, and that the data is reviewed on a regular basis to ensure call record totals remain unchanged. In addition, we noted the IS department receives occasional requests from the users to generate specific reports, and the reports are created and run on a customized basis.

Key Control Objective – Payments are authorized by users and controls are in place that limit access to the disbursement system.

Policy or Procedure

Once compensation files are created, they are submitted to the user for review and payment authorization. Once payments are authorized, payments are submitted by the DAC Manager to BCI's Accounting Department. All payments to PSPs are made directly by the Accounting Department, and the DAC group has no access to the disbursement system.

Tests Performed

PS&Co. inquired of appropriate personnel as to access to the disbursement system, noting access is properly limited and segregated from those having direct access to the DAC System.

Key Control Objective – Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Policy or Procedure

BCI has established policies and procedures regarding system changes, including specific policies regarding:

- Formal system change requests
- System change approval
- Monitoring/evaluation of changes to other systems
- Identification of responsible persons
- System security controls
- Program security controls
- Capabilities to test changes and compare to known results.

Tests Performed

PS&Co. obtained and reviewed written documentation regarding the policies and procedures in place to control, execute, and implement system changes, including limitation of access to make changes without proper authorization. In addition, PS&Co. made inquiries of appropriate DAC and IS personnel, noting consistency with stated policies.

Key Control Objective – Policies and procedures are in place to properly report compensable calls originated from valid payphone ANIs. In addition, such reports are maintained for the period required by the FCC.

See above control objectives for more detailed description of key control objectives, related policies and procedures, and tests performed.